

**AN EVALUATION OF
MUNICIPAL BUDGET
REFORM IN HUNGARY**

THE SZENTES CASE STUDY

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AN EVALUATION OF MUNICIPAL BUDGET REFORM IN HUNGARY: THE SZENTES CASE STUDY

“Anyone who needs information about the city can obtain it from the budget.” This is the motto of Szentes—a mid-size city with a population of 33,000. To achieve this objective, local government finance officers and department heads have recently been enhancing their skills to improve budgeting and financial management in their city.¹

The residents and council members of Szentes can examine the city’s budget and know much more about how their city works today than three years ago. The process of achieving this has been difficult but extremely rewarding. The increased workload and the need to keep staff motivated were more than anticipated. On the other hand, the resulting faster and more informed decision making and the smoother process of local budget approval were gratifying. This case study analyzes the successes and difficulties experienced by Szentes officials as they reformed their budget, and describes the process for other Hungarian cities who are also motivated to bring about budget reform.

TRADITIONAL BUDGETING IN SZENTES AND THE MOTIVATION FOR CHANGE

Before 1997, the Szentes budget was traditional and contained no extra information beyond what was required by central regulations. The main document contained a proposal for the next year’s budget, as well as a municipal decree on adopting and implementing the budget proposal.

The first (narrative) part of the document described the rules and regulations of the central budget law that related to local governments, and also established the impact of central regulations on municipal financial management and local measures required by it. For example, in 1996 the document stated that funds from the central budget had decreased, creating a need to involve greater municipal funds and implement some austerity measures. The primary objective was to generate sufficient funds to cover operating expenditures without taking out any credits. The 1996 budget also outlined the measures to be taken during the year in order to achieve that objective.

¹ In July 1996 Szentes began to participate in a three-year program initiated by the United States Agency for International Development (USAID) in Hungary (1996–1999) titled *Modernizing Financial Management for Hungarian Local Governments*. The program is comprised of six one- or two-day training seminars following the local governments annual budget cycle (January–December), with training in developing a program budget along with other financial management skills, such as forecasting techniques, revenue alternatives, performance measures, fiscal indicators, and capital budgeting. The training material also covers other categories, such as citizen participation in governance, the budget process and calendar, implementing and monitoring the budget, and budgeting and accounting.



The traditional document was essentially a line-item budget, with no details on service accomplishments and program results. This lack of information did not facilitate objective decision making by the city council. Nor did it explain to residents the government's policies or use of revenues.

Leaders of the financial office felt that making informed decisions about discontinuing or decreasing municipal activities without affecting service levels required a completely restructured budget document. The new document would need to provide information on any duplicate services and related expenditures, so that decisions could be made based on data rather than subjective policies.

The Need for Change

The city had been struggling with very high expenditures for years, and neither the municipal office nor the institutions knew the exact expenditures and/or savings on specific services. A decrease in financial revenues had led to an increasing need for a more transparent budget document.

When the city joined the USAID program in July 1996, officials knew little about what the program implied or its impact on their government's decision making processes. They did know that for the council to make better informed decisions, they needed to develop proposals better supported by data and factual arguments. They also felt it necessary to have a long-term strategic plan, eliminating ad hoc and "fire-fighting" policies.

Initiating Program Budgeting

The USAID program provided technical assistance, including training and resource materials in program budgeting and financial management. The city of Szentes committed the staff time necessary to undertake the reforms, and identified the priority area in which to initiate program budgeting. For the 1997 budget, city officials targeted a relatively small but suitable sector for learning program budgeting techniques—communal services

(called city management in Hungary). Two subprograms were identified: (1) park maintenance and green area management, and (2) public area cleanliness. The head of the finance department (Mrs. Erzsébet Krajsóczki) and the head of the communal services sector (Mr. Sándor Varga) attended the training seminars. Mr. Varga states that after attending the first day of the two-day seminar, he did not want to continue. As a technical person, he did not see the need to understand financial matters. However, the training began to clarify that even though the budget is a financial document, its preparation involves technical elements and thus his participation and training were crucial to budget reform. Moreover, he began to see that a program budget could be a powerful tool for

The Program Budget

A program budget focuses on the expected results of services performed by the government, rather than focusing on what a municipality buys (personnel or commodities, for example). Goals and objectives are stated for each service category and subcategory in specific quantifiable terms. The program budget identifies what activity is proposed, what effect it will have on the public, and the estimated costs for the resources needed to accomplish the objectives for each program.

explaining his sector to committee members and the public.

A program budget cannot be initiated without the political support and guidance of a city's mayor, finance director, and budget committee. In Szentes the "champions" of program budgeting were the mayor (Mr. Imre Szirbik) and the head of the finance department, and they initiated the reform process as follows:

Council members were first informed about the proposed budget reform in the semi-annual report—required by law—in June 1996. They then requested a work plan prior to adopting program budgeting.

The needed reform in the park maintenance and green area program was outlined and a work plan was developed.²

Internal meetings were held among council members, and budget and department staff to inform everyone of the budget reform and concepts of program budgeting.

At the August 1996 session of council members it was decided to adopt program budgeting in the communal sector.

By the time the budget concept was discussed in February 1997, each council member understood the changes that had been made in the structure and content of the budget, and practically all of them supported these changes.

After adopting the 1997 budget, the city decided to expand the program budget to include the entire social sector. The city's finance department submitted a detailed work plan to the city council in May 1997, which was unanimously supported and approved (see Appendix A). The work plan specified the following:

Development of the Program Budget (PB) in Szentes

1997
PB for communal sector (2 subprograms)
1998
PB for the entire communal sector (3 subprograms)
PB for the entire social sector (3 subprograms)
1999 (Planned)
PB for all sectors, all programs
Communal sector
Social sector
Education sector
Other sectors (culture, library, sport, tourism, etc.)
Separate operating and capital budgets

A complete review of the social sector by the August session of the council, so that decisions regarding restructuring (if necessary) and changing the sector could be implemented in time for the 1998 budget.

² The 1996 work plan for the 1997 budget was very preliminary, and remained a theoretical rather than practical tool. In retrospect it served more as a draft for the 1997 work plan, which was strictly followed.



A description of the phases of budget reform, including the various steps, deadlines, and names of persons responsible for specific tasks.

The budget concept approved in November 1997 listed all the social sector subprograms to be presented in the 1998 program budget. The city also decided to add another subprogram under communal services to the 1998 program budget—the bridge and road maintenance program.

The social sector has 23 activities, which are mandated and specified by law by the central government. Szentes grouped the activities into the following three subprograms:

Social activities subsidized by the central government.

Social activities where the subsidy is given directly to the service provider, not the individual.

Social activities providing personal care to the citizens.

In addition to the main budget, a separate budget/volume of indicators was also developed for all city institutions, composed of two sections: tables with fiscal and performance indicators³ from 1995 to 1998 for all institutions, and tables with all line items of revenues and expenditures for all institutions from 1996 to 1998.⁴

For the current 1999 budget, the city is developing a program budget for all its sectors: communal, social, education, and other.⁵ In addition, Szentes will have a separate capital and operating budget. A copy of the 1998 work plan for the 1999 budget is in Appendix B.

BUDGET REFORM IN SZENTES

The process of budget reform takes several years. Szentes started program budgeting in one sector in 1997, and has slowly expanded its scope to additional sectors. For the 1999 budget, the city plans to present all sectors as a

Municipal Budget Reform

The actual process of budget reform involves several stages:

- Evaluation of community needs
- Organization of the budget process
- Decision making

This requires in-depth analysis of the sector and joint and sustained effort by the financial department as well as all the institutions involved.

³ The performance indicators were inputs, outputs, and efficiency. No outcome indicators were calculated.

⁴ Revenue and expenditure information for 1996 was “actual,” for 1997 “expected,” and 1998 “planned.”

⁵ The education sector includes five kindergartens, six primary schools, six secondary schools, one hostel for the primary school, and 1 hostel for the secondary school. The “other” sector comprises administration and management, fire protection, public culture, sport, tourism, and civil defense.

program budget, and then continue to refine the budget in future years.

Evaluation of Community Needs

The two sectors presented as a program budget thus far—communal and social—have undergone a detailed SWOT (strengths, weaknesses, opportunities, and threats) analysis. The SWOT analysis was specified under phase two of the work plan, and led to the development of program alternatives, a detailed knowledge of current service levels, and identification of future needs and how to achieve them. (See Appendix C for a copy of the 1997 SWOT analysis).

The budget is a reflection of how citizens' monies are being spent, and should therefore involve greater public participation. This participation promotes citizen understanding of government and vice versa, builds relationships and trust, and ultimately leads to better and long-lasting decisions. According to the head of the city's finance department, the weakest point in the budgeting process is the lack of direct involvement by the public in articulating its needs and demands to the government. The city is aware of this shortcoming and has tried to increase direct contact with the citizens. In 1999, the city plans to conduct its first citywide, multi-service household survey and a questionnaire to parents of children in kindergartens (see Appendix D).

Currently, information about community demands and needs is obtained indirectly from city council members, who get to know a citizen's needs/complaints at a public forum or when they receive a citizen in their offices. The city council member then informs the appropriate government agency and tries to help solve the problem in a fairly informal way or formally states the citizen's concerns at a city council meeting. The staff of the agency concerned must then respond to the complaint and state if the problem can be solved /financed from the current budget. Since 1994 the mayor has had "open day" once a month to hear the grievances and complaints of residents. The head of the finance department also has monthly meetings with institution heads who give progress reports on their current work and future plans.

In the work plan for the social sector there is a section titled "Information from People." In certain cases,⁶ when decisions need to be made regarding introducing a new service or restructuring an existing service, the opinion of the public is obtained via talks and discussions. In the communal sector, problems have been identified either by site visits (e.g., condition of roads) or by city council members. The city hopes to start using mailed questionnaires/citizen surveys in the future.

⁶ Such as the needs of elderly people, baby-sitting at night at the day care center, etc.



In general, public complaints and demands are currently identified in the following ways: (1) via public forums, city council forums, and office hours, and (2) letters addressed to and processed by the finance department which estimates costs associated with addressing each of the problems and includes them in the budget policy document (under the title “Public Demands”). If people want to influence budget decisions on important issues affecting them (usually major investments), they can participate at the local government’s discussion of the budget.

Organization of the Budget Process

In order to organize the budget process and make the document more “citizen friendly,” the head of the finance department prepared a form for the 1997 budget that had to be completed by each institution. The form requested information about revenues and expenditures, number of staff, and salary scales (see Appendix E). Detailed work plans were also prepared by the sector developing a program budget.

The additional data requirements for a program budget necessitate greater cooperation between the financial department and the

Smoother Budget Process

The budget process can be made smoother by:
Preparing a budget calendar/work plan
Improving cooperation among departments
Strict adherence to realistic deadlines

sectors. According to the head of the finance department, it is important to stress to department heads that a program budget will allow them better articulation of their needs and/or make clear the consequences of inadequate funding to the city council and citizens.

The social sector is relatively large, with more staff than other sectors. Cooperation between the social policy group and the finance department has been more difficult because the former is overburdened with work. For example, the head of the finance department had to independently develop a list of indicators—some demographic and others to measure efficiency and effectiveness—for the social sector, which were later short listed by the head of the social group. However, during the process of preparing the budget, both groups realized their interdependence and need for cooperation. Their work together was successful not only because they had a tangible product (a program budget) as a goal, but also because their attitudes and way of thinking changed. The strategic goals for the 1997 work plan were formulated jointly by the finance department and the head of the social policy group, and the heads of different social institutions were involved in developing the subprograms. Institution heads also played a major role in collecting such data as the number of clients of various services, mapping the current situation, evaluating collected information, and prioritizing the different services.

There was limited dialogue between the heads of the communal and social sectors. They both stated that their sectors are so different that discussions on program budgeting techniques were unnecessary. However, since the communal sector was the pilot sector for program budgeting, lessons learned in that sector—such as obtaining additional information from and motivating the staff, and developing indicators, charts, and graphs—could have made program budgeting in the social sector easier.



Decision making

As a result of the budgetary reform, decision making has undergone changes, with the city considering different alternatives to achieve a particular goal. Being a small sector, communal services did not offer many choices. In the 1997 budget, two alternatives were proposed to achieve each subprogram's goal. For park maintenance and green area management, the alternatives were: 1) increase the grass area under city maintenance by 10 percent, or 2) increase the grass area under city maintenance by 20 percent. For the public sanitation subprogram, the alternatives proposed increasing the surface area of the roads to be cleaned by two different percentages.

The sector analysis and detailed information generated in the process of budget reform also benefited decision making in the communal sector subprograms. It was decided to expand the area of park maintenance. The sector also made a five- year plan for park maintenance beginning with 1997 (this was approved by the city council). The same was also done for public cleanliness, and a detailed list of regularly cleaned streets was prepared and reported in the budget for the first time. Thus citizens interested in the working and functioning of government became better informed and now complain if streets are not cleaned on time.

Since bridge and road maintenance was also presented as a program budget in the 1998 budget, the city developed a detailed list of work to be done (in square meters): potholes repair, curb maintenance and repair, maintenance of unsurfaced streets, pavement repair, and bridge repair. It also specified the amount of money to be allocated to each of these areas. According to the head of the communal sector, other cities like Eger and Gödöllő also maintain similar detailed information for this sector. However, none of the other cities were aware that this information is used and crucial in program budgeting.

The welfare sector includes several kinds of highly diverse services. There are numerous central regulations with which to comply, so the municipality's flexibility is limited. Despite these constraints, three alternatives for improving the welfare provision system were suggested after the sector analysis was completed in August 1997.

All the committee members interviewed for this report stated that decision making in both communal services and social welfare was now based on a clearer understanding of the program. The impact of restructuring the sector and any changes in resource allocation on service delivery is now clearer.

THE BUDGET DOCUMENT

With the transfer of more central government functions and responsibilities to the local level, local governments have been challenged to maximize resources and improve managerial productivity and accountability. Information on local government policies, operations, programs, and expenditures are demanded not only by the policymakers and citizens, but also the investment and business community. In this environment, a community's budget document can serve several purposes. It can be: (1) a policy statement, (2) a financial plan, (3) an operations guide, and (4) a communications tool.

A Policy Statement

The budget can be the single policy document that articulates the government's fiscal and program policies and explains the rationale for these policies. Since budget decisions and estimates are based on certain assumptions, these should also be disclosed in the budget.

The Budget as a Policy Statement

The budget should guide the activities of people who are budgeting. Practically all local governments face the constraint of financial resources that are insufficient to satisfy competing needs within the community. Managers must therefore identify the current and future community environment; define needs; establish goals, priorities, and strategies to meet the needs; and wisely allocate limited resources.

The policy overview of the budget usually includes the following items:

A transmittal letter/the budget message. Although not essential, the transmittal letter may summarize key budget decisions, serve as an extensive budget message with goals and priorities, and provide a description of fiscal and program strategies to address pressing issues and help the government fulfill its mission.

A time perspective. Long-term goals and short-term objectives are stated and clarified by past trends, current events, emerging issues, and future directions.

Organization along major themes. Successful policy overviews are constructed around major themes that are action-oriented statements, and guide the development of the budget for the upcoming year. For example, one theme in the budget could be, "Make the City a Great Place to Live and Do Business."

Illustration with graphs and graphics.

The Szentes 1997 budget included several new elements relative to the traditional budget, but substantial progress in meeting some of the above objectives began only with the 1998 budget. The following table briefly shows elements of the 1997 and 1998 budgets



satisfying the above criteria.

Table 1
The Szentes Budget as a Policy Statement

1997	<p>SWOT analysis for each sector (two subprograms). This identified each sector's current status and future direction.</p> <p>Use of graphs and figures to explain the working of some institutions.</p>
1998	<p>Letter from the mayor stating the budget reform rationale and city's priorities.</p> <p>SWOT analysis for each sector (entire communal and social sectors) that identified their current status and future directions.</p> <p>Summary of working of the government—past and future—with graphs and tables.</p> <p>Increased use of figures and graphs throughout the document.</p>

The city's major policy objective is to maintain service levels for its citizens (despite decreasing central government transfers and subsidies) and to develop the city as a sports and tourist location. Even though these "action-oriented" statements guide the development of the city budget, these policies are not formally stated within the budget document. It is important to keep in mind that the budget reflects government policies not only for the benefit of the citizens of the community, but also for other cities and possible investors. Thus, the city's major missions should be stated up front in the budget.

A Financial Plan

The financial section of the budget should present detailed summaries of revenues, expenditures, debt, and capital spending. In addition, it should have a consolidated summary of all financing sources and uses, including information on revenues, transfers, debt proceeds, expenditures, and beginning and ending balance.

The Budget as a Financial Plan

The budget should provide a comprehensive perspective of the government's financial condition over a period of time. To develop a rough framework of financial constraints that will be faced in the budget year, the following issues should be examined and analyzed:

- Current revenue performance and preliminary estimates of revenues for the budget year,
- Current expenditures versus the budget and the prospects for a surplus carryover into the budget year,
- Trends in inflation and local economic conditions,
- Prospects for new taxes and fees or changes in current tax and rates, and
- Major cost items that will fall due in the budget year.



Budgets in Hungary have traditionally served as financial documents, with a summary and detailed tables. However, the 1997 and 1998 Szentes program budgets now have the following additional financial information:

Consolidated financial summaries of revenues and expenditures, as well as a summary of expenditures by institutions.

Description of major revenue sources, and discussion of significant revenue trends and underlying assumptions for revenue estimates.

Expenditure data and analysis structured by different activities. This gives a better picture of the current working of the government since it shows the amount of money received and spent in each sector.

List of major capital projects and their costs for the budget year, plus the estimated impact of capital projects on current and future operating budgets. This highlights the financing needs of the city, and helps prioritize the different activities.

Three or more years of information in the financial summaries. The trend analysis is useful because it facilitates more accurate projections for future budgets.

Balance sheet of expenditures and revenues.

Loans.

An Operations Guide

The budget operating detail—usually the longest section of the budget document—includes the following standard features: (1) department or program goal statements, (2) performance objectives and measures, (3) financial data, (4) staffing and organizational structure.

The Budget as a Operations Guide

The budget should provide guidance to department managers, measure the departments' productivity, and outline the operational and spending plans for government agencies and program. Each program should have detailed information on the agency mission, staffing levels, performance objectives and indicators, expenditure levels, and financing sources if possible.

With the start of program budgeting in 1997, program goals were identified for both subprograms in the communal sector. The city also made detailed revenue and expenditure summary tables for all institutions in the city, first providing a brief description of each institution's professional activities via major indicators, and secondly stating goals for these institution. With a program budget for the social sector in 1998, the city developed goals for each social institution; there are three institutions providing 23 activities, grouped into three subprograms. No program objectives have been stated in the budget so far.

For the 1997 budget, the communal department defined several performance measures—input, output, outcome, and efficiency measures. Although performance indicators will have an important role in the future, no significant analysis has yet been done. The budget defines the performance indicators but contains no data. As stated earlier, the 1998 budget had a separate volume on indicators that included input, output, and efficiency indicators. Outcome performance indicators are yet to be specified. The State Audit Agency supervises/monitors the meeting of central requirements by the local government, which are primarily based on the quantity of services available to citizens (number of hospital beds or number of day care centers, for example) and some performance measures. If these normatives are not met, the local government has to assume responsibility. Central normative indicators are usually not included in the budget. Szentes chose to include the central normative indicators along with their own performance indicators, so as to avoid unnecessary work and overlap.

Regarding staffing and organizational structure, the 1997 and 1998 budgets included flow charts showing the structure of the city council, institutions, and mayor's office. Both budgets also contain staffing summaries by institution.

A Communications Tool

In addition to providing information to the local community, the budget should also highlight the following elements:

The Budget as a Communications Tool

The budget can be a powerful communications tool that brings valuable information to the citizens, business persons, potential investors, central government officials, and others.

Major factors that influence the budget from one budget period to another.

The community profile and statistics and the government's organizational structure.

Organizational and financial structure of different departments and agencies.

The government's fund structure and the budget classification used to categorize resources and spending.



Since the budget is a vehicle for communicating budget decisions in an accurate and clear manner, the document should be formatted and printed in a way that will enhance its utility and the lay reader's understanding. The budget should therefore include reader guides (e.g., "How to Read the Budget"), budgets in brief, and graphs and other visuals that will effectively communicate policies and priorities.

A new element in the Szentes 1997 budget document is a table of contents followed by an introduction to the city, which briefly describes its economic situation, infrastructure, major economic units, investment opportunities and demography. Other new elements are charts presenting the structure of the city council, the list of institutions providing municipal services, the structure of the mayor's office, and a list of major municipal responsibilities. The document also provides an overall analysis of the communal sector: its strengths and weaknesses, legal background, local information, a description of the 1996 conditions, an identification of tasks for 1997, and a proposal of crucial issues that need to be addressed in order to improve municipal services.

It is important to note that information on sectors not yet presented as a program budget is also much more detailed in the 1997 budget than in previous budgets. The information includes demographic data, identification of problems, details of resources shared between the central government and the city, and expenditure ratios (e.g., the cost per student in various schools). Besides a more detailed budget, there is a short description of activities as well as objectives to be financed from each institution's budget.

The local press and radio have publicized the budget reform several times. The local government wishes to maintain a day-to-day contact with these media, as it is an effective way to keep the public informed. More recently, the newsletter of the Ministry of Interior and the national magazine *Autonomia* covered the topic of program budgeting and budget reform in general, and Szentes was cited as an example of a city initiating budget reform. Since then the local media (newspaper and radio) in Szentes have increased their coverage and directed questions regarding budget reform to the head of the finance department.

In the 1998 budget, in addition to all the above elements, the city expanded the section on general information about the community, and also discussed internal and external factors affecting the budget. However, improvements in the budget layout can make the budget even more effective. For example, all information pertaining to a sector could be consolidated and presented in one section, with a separate section for each sector.

Obstacles to Change

Despite its tremendous achievements in budget reform, Szentes has faced several constraints/obstacles to the reform process.

Time. This is the main constraint mentioned by the staff involved in the budgeting process. The reform process entails an enormous amount of extra work, often done after regular working hours. As the process requires the cooperation of several units and agencies, all staff members have to work long hours.

Resistance to Change. According to the head of the finance department, the budgeting reform process is slowed down because: (1) some institution heads tend to not immediately see the purpose and benefits of reform (the institutions' financial managers are better partners), and (2) some persons responsible for the given sector within the mayor's office do not do what is expected from them. The institution heads are unable to manage the budgetary reform because they lack an overview of the process. This often makes them reject the idea of reform. The mayor and the head of the finance department therefore spend a lot of time persuading the staff that the budget reform is useful and worth the increased work load.

Lack of Adequate Staff. The staff have the necessary skills and knowledge; nevertheless, they need training to improve their expertise in putting together a program budget, which again requires time. According to the mayor, it is important is to develop the right attitude in the staff to keep them motivated despite the time shortage. In some departments, it is also necessary to increase the number of staff to cope with the increased work load.

Technical Constraints. Another constraint is the inadequate technical equipment due to financial shortages (e.g., insufficient computers, color printers, software, and binding equipment).

Overcoming the technical difficulties will allow the staff to focus on the analytical and policy changes that are necessary. Certain inefficiencies such as duplication of efforts, inevitable due to compliance with Hungarian laws and requirements and compliance with the requirements of a reformed budget, can be addressed by removing technical obstacles. Once all city government offices are computerized, the staff can easily prepare the two budgets—first, the budget according to the specifications of the central government, and second, their program budget.



DID THE BUDGET REFORM MAKE A DIFFERENCE?

The head of the Szentes Social Group stated that she had originally been very skeptical about program budgeting, primarily because she had thought that her staff would be unable to undertake more work.⁷ Participating in the training seminars and seeing the benefits of the program budget in the communal sector gave her a more positive view of the reform. In her opinion, program budgeting can help identify the weaknesses of the city's social policy, and thereby help the city restructure its various activities. This, in turn, will lead to greater efficiency and improvement in service provision.

Program Budgeting Can Make a Difference

Park maintenance had been run as a private company prior to 1992, thus the head of the communal sector had a lot of data (which he had continued to collect) and indicators. This sector ran efficiently because standards and norms had already been established regarding the work and use of machinery. Despite this, developing a program budget for this sector involved a lot of additional work. However, its benefits were as follows: (1) detailed information and explanation of tasks and results in the sector, (2) information originally used only for internal reporting was now also used in the budget (external reporting), and (3) greater transparency in the working of the sector.

Objective Decision making

City officials state that their expectation that the program budget process would facilitate decision making has proved true. As stated by the mayor, budget implementation is a continuous and never-ending political debate, and the more detailed and transparent the budget is, the more objective decision making will be. This is his main reason to pursue the reform process.

Interviewed committee heads unanimously support the reform program, and are committed to preparing a program budget in education for the 1999 budget. Their reason: more detailed analyses make it easier to make decisions. A program budget shows what kind of and how much work is associated with total figures in the budget, and therefore creates checkpoints for whether an activity has really been performed. It also emphasizes the identification of alternatives to achieve program goals and objectives and the use of criteria in choosing among alternatives.

Institution heads emphasized that their involvement in the budgeting process often makes the proposed goals more realistic. This is especially important at a time when a municipality's expenditures exceed revenues and the city has to consider what activities can be discontinued without risking a decrease in the level of services.

⁷ The Social Group has a small staff, who have to carry out administrative jobs, respond to complaints from the public, and review applications.

Clearer and More Transparent Budget

Even though she has been involved in the city's financial office for the last 29 years, the head of the finance department stated that the traditional budget did not help her understand how budgeted amounts were really spent. The 1997 program budget began to change that. The detailed information required in a program budget also facilitates easier updates in future years.

Results of Better Budgeting

"Council members now have a better understanding of sector tasks and the amount of effort and work involved in achieving a base level of service provision."

"Council members now carry a copy of the budget to all meetings."

"As a result of the success of program budgeting, the standing of Szentes has increased in the eyes of its neighbors."

The committee member for communal services stated that the new budget style enabled the sector to better support and articulate its demands to the finance department. It also led to clearer expectations for future service delivery since the sector was able to state its plans up to the year 2010.

Citizens reading the new budget can now get more information about the community. They can see how their monies are being allocated and compare the working and efficiency of different institutions. A clearer and more transparent budget also becomes a positive signal for businesses as they look for a city in which to make investments.

Efficient Use of Limited Resources

Originally the city had a lump sum budget. Now, with a program budget, the government is better informed about its use of limited resources. More information also leads to better articulation of demands (based on facts) by the finance department and better allocation of scarce resources within the sectors. Decisions can be made based on facts and information, not political pressure.

The government can now show actual service capability and identify any duplication of services and efforts in a sector. This information can lead to departmental and functional mergers, which increase efficiency and justify the use/discontinuation of limited resources in different sectors. For example, the SWOT analysis of the social sector showed that several different institutions were providing the same service. The city has now restructured the institutions to prevent an overlapping of services.

Clearer Assessment of Expectations and Opportunities

Close cooperation among the department heads and the head of the finance department have affected their thinking—all have more realistic expectations of the others and respect each other's stated constraints. Since a program budget includes trend analysis, it highlights the achievements



and failures from one year to the next, and thus leads to a better assessment of expectations and future opportunities.

Better Monitoring and Implementation of the Budget

The program budget process has generated substantial information about the sectors, which leads to better control and implementation of the budget. Committee members are now aware of specific funds allocated to different tasks, and can monitor whether or not the tasks have been implemented. Council members have been motivated to actually carry the budget with them to all council meetings, and use it to question the implementation and monitoring of the budget.

CONCLUSIONS

As local government responsibilities in Hungary are defined and categorized by sectors (as are institutions and departments of the Mayor's office), the best way to introduce program budgeting is to take a sectoral approach. The city of Szentes has created a structure of programs and subprograms that centers around (usually mandatory) responsibilities within a sector. This is a useful method, especially in the first years of creating a program budget when it is crucial to obtain a clear picture of how these sectors function. However, the city should later strive to create budgets that concentrate on solving problems, that is, program objectives should not merely meet responsibilities but solve major problems. To find out what these major problems are, however, each city has to go through the various stages of refining its budget, as is Szentes.

How is the budget process in Szentes different from the traditional budgeting process? Since Szentes is in its third year of budget reform, the following improvements have been made in its budgeting process:

The finance department is more careful about timing and starts to look at priority areas as early as April instead of November.

A work plan is developed and strictly followed.

Key individuals responsible for the various activities are identified early and held accountable if they do not deliver results in time.

The city now collects actual data for its performance measures.

Informing those involved in the budget reform has become an ongoing process.

Szentes shows a long-term commitment to budget reform. Each year the city has added more sectors to the program budget, and has a 1999 program budget for all sectors. After that the city will focus on refining its budget.

The committee members recognize the tremendous work and effort by the finance department and are extremely appreciative of the new budget. All the interviewed members stated their willingness to support this budget reform and create a conducive and cooperative environment for future work. There have been several obstacles to change, but the local government states that it is motivated and committed enough to continue with the reform process.

RECOMMENDATIONS FOR THE FUTURE

As the city of Szentes moves towards a more refined budget document, it should incorporate the following elements into its budget:

A policy overview that outlines the issues and problems of special concern to the municipality and describes how they are addressed in the budget.

An analysis that links past and future budget activities to the current budget—that is, presentation of a three-year analysis.

Articulation of budget goals and priorities, and explicit program objectives.

The 1997 budget was an annual budget. There is a need for multiyear planning that will make clearer the development and progress in various sectors and service delivery over the years.

Make the budget more user/reader friendly with a tabs and separate sections for each sector. For example, each sector could have a brief description of its functions, and summary tables for financial and nonfinancial data.

Undertake the development of performance measurements. Use of these indicators is new to Hungary, and therefore it would be best to start with easily quantifiable and measurable indicators, such as customer satisfaction in service delivery.

Encourage more citizen participation in the budget process by encouraging and incorporating citizen feedback in neighborhood and special interest group meetings.

Assess the needs of the community via surveys and/or questionnaires.



City policies that are currently known informally should be articulated and formally stated in the budget.

As the city undertakes detailed sector analysis, several technical tables/information are produced, all of which should not be included in the budget. Some should be internal documents that are only referenced in the budget.

The city has a good overview of the different sectors—due to the SWOT analysis—and has identified problems and possible solutions. The city should now develop and specify programs to solve specific problems and satisfy objectives. Programs should no longer be based entirely on mandatory tasks.

Lessons from the Szentes Case Study

In Hungary, public interest in the budget is usually rather low. Citizens do not have the perception that local government budgets are a reflection of the use of taxpayers (that is, their) money. It is a widespread belief, especially among older generations, that services provided by the municipality are subsidized and not being funded by their taxes. It is the local government's responsibility to challenge this attitude by educating and reporting regularly to the public and by listening to people's opinions. This is the essence of a democracy and the right of citizens for better governance.

As Hungarian local governments take on the challenge of preparing program budgets, they should learn from the experiences of their neighboring cities. The above recommendations for Szentes are applicable to all cities who are in the process of refining their program budgeting processes. Local governments starting the process for the first time should keep in mind the following important points:

Obtain support for the budget reform from the mayor. The reform process involves a lot of hard work and dedication, and the mayor can play a crucial role in keeping the staff motivated and “selling” the process to committee members.

Inform council members and citizens about the proposed adoption of the program budget as soon as possible and start a policy dialogue with the council members. The best way to inform people about the program budget for the next year is in the semiannual report (mandatory) published at the end of June. This should be followed with more information in the third-quarter report (end of October), and, finally, quite sophisticated details about program budgeting should be provided in the budget concept (end of November). It is important for the city's finance department to gradually build support for the budget reform initiative so that there are no surprises and opposition at the end.

Start program budgeting in an easy sector and then expand to other more complex sectors.

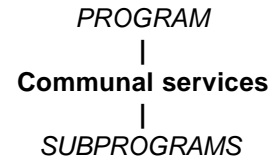
Program budgeting involves a lot of hard and extra work. Finance officers should therefore enlist the cooperation and support of department and institutional heads for the reform process.

APPENDIX A
1997 Work Plan for the 1998 Budget

Section One

			Person in Charge
Activity	Staff involved	Deadline	
PHASE I			
CMeeting		04.21.97	
CFrame the strategic goal			
CDefine the program objective			
CDevelop subprograms			
PHASE II			
Assess current status,			
Data acquisition			
CInformation from citizens		06.20.97	
CDevelop the costs of services (facts in 1995 and 1996, and planned for 1997) by norms of services			
CDevelop the indicators to influence the costs of services, set up trends (number of employees, logistical arrangements, etc.)		07.01.97	
CReview the number of service users (facts in 1995 and 1996, and planned for 1997)		07.01.97	
CReview the utilization rate of institutions providing services		07.01.97	
PHASE III			
CEvaluate information gathered		08.15.97	
CSet priorities		09.30.97	
CPrepare the 1998 budget policy		09.30.97	
CDefine service norms		09.30.97	
CDevelop alternatives, present investment opportunities		09.30.97	
CCommittee review		10.31.97	
CPrepare 1998 budget, present it to council		12.19.97	

Section Two



Activity	Deadline	Staff to be involved	Person in charge	Public sanitation services	Park Maintenance
Evaluate previous year's work	02.21.97				
Define accounting rules for the budget	04.15.97				
Prepare work plan for 1997	05.05.97				
Control and monitor implementation of budget	before the 10 th of each month				
Analyze implementation of budget	before the 20 th of each month				
Provide recommendations as to how to utilize results of budget implementation analysis	before 28 th of each month				
Conduct citizen survey	08.31.97				
Prepare 1998 budgetary policy based on results of continual analyses and experiences	09.30.97				
Committee discusses budgetary policy	10.31.97				
Present 1998 budgetary policy to city council in a public hearing	11.28.97				
Prepare 1998 budgetary decree	12.19.97				

APPENDIX B
1998 Work Plan for the 1999 Budget

Activity	Goal	Time Demand (hours)	Unit in Charge	Deadline	Outcome
Meeting	Create work teams; clarify and decide on the content, format, and organization of the budget	2	Finance	07.18.98	Broad distribution of work; well-planned work; specific direction
Hand out forms for analyses	Sector analyses; select indicators	2	Work team heads	09.02.98	Highlight problems, arguments for requests
Work meeting	Sector analyses; review the current situation, projections, and conclusions	6	Work team and institution heads	10.15.98	Develop alternatives; Remove duplicating service provision
Hand out budget forms	Review revenues and expenditures	5	Work team and institution heads	10.30.98	Know financial possibilities
Work meeting	Preliminary coordination; identify priorities; alternatives; impact assessment	10	Work team and institution heads	11.11.98	Efficient service provisions
Develop the budget concept	Present possibilities of service provision; make decisions	14	Finance	12.15.98	Make decisions necessary to continue planning
Budget coordination talks	Coordinate requests and possibilities	20	Finance	01.10.99	Ensure on-going operation
Evaluate the results of the budget coordination talks	Present achievements in making the budget	10	Finance	01.15.99	Share opinion
Public forum with the Assembly (Body of Representatives)					
Review budget requests	Make them accurate	5	Finance	01.20.99	Include priorities as much as possibilities allow
Develop the budget draft	Present the 1999 budget	20	Finance	01.25.99	Prepare the budget draft
Coordinate the budget with committees	Discuss reactions	10	Finance	02.01.99	Include reactions

Activity	Goal	Time Demand (hours)	Unit in Charge	Deadline	Outcome
Finalize and submit the budget	Gather opinions on the 1999 budget	15	Finance and mayor	02.25.99	Approve the 1999 budget

Participants in the Work Plan for the 1999 Budget of the City of Szentes

Coordinator	Mrs. Krajsóczy			
Person(s) in Charge of the Sector	Sándor Varga Communal Program	Mrs. Lencse, Mária Szalontai Social Program	Mrs. Mihály Education Program	Imre Balogh Other Program
	Road and bridge maintenance	Cash benefits	Kindergartens	Administration
		In-kind benefits	Primary schools	Civil defense
	Park maintenance	Personal care	Arts education	Fire prevention
	Public cleanliness		Pupils' hostel	Community education
			Secondary education	Sports
				Tourism
Involved in the Job	Head of the Technical Dept.	Social and Health Committee	Education and Sports Committee	Legal and Procedures Committee
	City Development Committee	Finance Committee	Finance Committee	Tourism Committee
	Finances Committee	Institution Heads	Institution Heads	Education and Sports Committee
	City Development Group	Social Policy Group	Finance Supervisor	Finance Committee
				Institution Heads
				Municipal and Legal Department

PUBLIC FORA

APPENDIX C

1997 SWOT Analysis for the Social Sector

Social Provisions

Program objective: Map fully those of the citizenry who have been living under worsening conditions and remove differences in provisions by making better use of the “penetrability” of the system. Improve the living conditions of families and individuals facing real problems by increasing the efficiency of the system using needs-based criteria.

Subprogram 1: Cash Benefits

Overall objective: Reduce financial hardship of the needy *where* and *when* it is necessary.

The sub-program offers 12 kinds of benefits, observing the regulations of the social benefits act and the local government decree.

Within *normative cash benefits*, *child raise benefit* is advanced from the municipal budget to be reimbursed by the central budget.

The advancement of *child alimony* and *the support for creating a home* are again to be reimbursed from central resources, thus all normative payments are financed centrally and the local government is not required to plan a budget item as payments do not exceed what is in the regulations.

Means tested cash benefits

1. Income supplement for the unemployed

For those eligible, the supplement is paid for no longer than 24 months; 75 percent is paid from central resources and 25 percent has to be ensured by the local government, thus 25 percent has to be planned in the budget.

Description	1993 actual	1994 actual	1995 actual	1996 actual	1997 expected	1998 plan
Total amount of benefits						
Benefit expenditures as a percentage of operation costs						
Benefit expenditures as a percentage of social costs						
Annual average number of recipients of income supplement						
of them community scheme workers						
Number of refused claimants						
The annual average number of unemployed with expired income supplement period						

2. Regular social aid

The municipality, based on its decree on social benefits, provides regular social aid for the needy meeting a number of criteria.

Description	1993 actual	1994 actual	1995 actual	1996 actual	1997 expected	1998 plan
Total amount of aid						
Aid expenditures as a percentage of operation costs						
Aid expenditures as a percentage of social costs						
Number of aid recipients						
Aid base						
Number of refused claimants						

3. Regular child protection aid

The purpose of the aid is to allow for children to stay with their families and to prevent taking them away from their families. In case the claimant meets the criteria defined by Act 1997/XXXI (child protection and guardianship), 70 percent of the payment can be claimed from the central budget; local government budgets provide only 30 percent.

Due to changes in the law, the group of eligible claimants has grown, and the 30 percent to be paid by the local government amounts to almost as much as the regular child raise benefit, paid fully earlier by the local government.

Description	1993 actual*	1994 actual*	1995 actual*	1996 actual*	1997 expected*	1998 plan
Total amount of aid						
Aid expenditures as a percentage of operation costs						
Aid expenditures as a percentage of social costs						

* Support paid as regular child raise aid between 1993 and 1997.

4. Housing allowance

The local government provides housing allowance for those who apply for it as regulated by the local decree. According to the decree, those who meet the following criteria are eligible: (a) family households where housing costs amount to 35 percent of the family's total income and the per capita income is less than 1.5 times the current minimum old age pension, and (b) single person households where housing costs amount to 35 percent of the person's total income and the per capita income is double that of the minimum old age pension. The allowance can be provided in cash or in-kind.

Description	1993 actual	1994 actual	1995 actual	1996 actual	1997 expected	1998 plan
Amount provided						

General housing allowance amount provided						
Heating assistance						
Support to replace the heating system						
Number of assisted housing units						
Number of refused claimants						

5. Nursing fee

The local government provides a nursing fee for a qualified individual who cares for a disabled family member needing permanent nursing. The period for the provision is regarded as a working period, thus it involves paying social contributions.

Description	1993 actual	1994 actual	1995 actual	1996 actual	1997 expected	1998 plan
Amount of nursing fee provided						
Amount paid as a percentage of social expenditures						
Number of claims for nursing fee (new)						
Number of recipients of nursing fee						
Number of recipients nursing children under age 18						
Number of recipients based on equity						

Number of refusals						
Number of recipients finishing their period of receiving a nursing fee						
Number of recipients of the full amount of the nursing fee						
Number of recipients of partial nursing fee						

(figures include contributions and the base)

6. Temporary aid

According to the local decree, the local government provides a temporary aid for those falling into an extraordinary situation endangering subsistence or facing temporary or permanent subsistence problems; the provision can be cash or in-kind.

Temporary social aid for adults

Description	1993 actual	1994 actual	1995 actual	1996 actual	1997 expected	1998 plan
Cash amounts paid to adults						
Number of recipients						

Extraordinary child protection aid for minors

Description	1993 actual	1994 actual	1995 actual	1996 actual	1997 expecte d	1998 plan
Cash amounts paid to adults						
Number of recipients						

7. Funeral aid

As provided by the local decree, the local government pays a funeral aid for those who have paid for the funeral of a family member.

Description	1993 actual	1994 actual	1995 actual	1996 actual	1997 expected	1998 plan
Amount paid						

Number of recipients						
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8. Temporary benefit for the elderly

The benefit is a provision for the elderly without an income-ensuring subsistence. It is a new form of provision introduced in 1998. 70 percent of the benefit is to be claimed from the central budget; the local government has to budget 30 percent.

Description	1998 plan
Amount	

APPENDIX D

Proposed Questionnaire For Parents Of Kindergarten Children

1. In your opinions what is the most important responsibility of the kindergarten?
2. Are you familiar with the pedagogical program of your child's kindergarten?
 - Yes
 - No
 - Partially
3. Are you satisfied with the kindergarten?
 - Absolutely
 - Fairly
 - Not at all
 - I have no opinion
4. In your opinions what are the strengths of your child's kindergarten?
5. In your opinion, what are its weaknesses? In what areas it should be improved?
6. If you have a problem, who do you see in the kindergarten?
 - One specific of the teachers of the group
 - Any of the teachers of the group
 - The nurse
 - The chief teacher
 - Another parent
 - The mayor's office
7. What do you expect of the teacher?
8. What do you expect of the nurse?
9. What do you expect of the chief teacher?
10. What do you expect of parents' representative organizations (Parents' Work Team, Kindergarten Board, Kindergarten Council)?
11. Which form of contact between the kindergarten and the family do you like?
 - Visit to the family
 - Meeting with the parents
 - Common excursion
 - Common celebrations
 - Family sports and other events
12. What educational problems would you like to hear a presentation about?
13. Does your child like to go to the kindergarten?
 1. What extra activities do you expect of the kindergarten?
 2. What would you be willing to do to have that extra service?

APPENDIX E

Table of Detailed Information from Institutions (1997 Budget)

Gábor Klauzál Primary School

1997

1. Brief description of the professional activities of the institution:

Major indicators:

The institution is an eight-grade primary school. Physical education and languages are taught at an increased level and mathematics in groups made up by achievement levels.

Special groups have been set up for various activities for especially talented children.

Number of pupils: 606

Number of pupils getting school lunch: 331

Lunch pupils from elsewhere: 166

Number of after-school groups: 15

Number of teachers: 56

Number of classes: 27

2. Goals to be achieved from the budgeted amount:

Maintain the operation of the school. In order to do so, visual aids, currently in shortage, should be obtained to be able to introduce the National Curriculum.

1. HUF (thousand):

Description	1996 actual	Measure	1997 Planned	Measure	Coordinated plan	Measure
Revenue from basic activities						
Other revenues						
Resources taken						
Money left						
Interest revenue						
Municipal support						
TOTAL REVENUES						
Wages						
Social contributions to be paid by the employer						
Other supports						
Resources handed over						
In-kind benefits for recipients						
Investment expenditures						
Purchases						
Q Water and sewage charge (m3)						
Q Gas (m3)						

Description	1996 actual	Measure	1997 Planned	Measure	Coordinated plan	Measure
Q Heating oil						
Q District heating (m3)						
Q Electricity (Kw)						
Q Postal fees						
Q Telecommunications						
Q Property maintenance						
Targeted reserve (from money left from 1996)						
Targeted reserve (13 th month)						
TOTAL EXPENDITURES						

APPENDIX F
List of Persons Interviewed

October 2–3, 1997

Szentes Mayor of
 QSZirbik Imre

Committee Members

 QFélegyháziné Somogyi Éva, Financial Sector
 QMóra József, Social Sector
 QHalmi László, City Management Sector

Department Heads

 QLencséné Szalontai Mária, Social Policy Department, Mayor's Office
 QKrajsóczki Sándorné, Budgeting Department, Mayor's Office

Institution Heads

 QGál Antal, Family Care Center
 QBenk_ Istvánné, Kindergarten
 QSzebellédi Anna, Family Help Center
 QVarga Sándor, City Management

December 1–2, 1997

Department Heads

 QKrajsóczki Sándorné, Budgeting Department, Mayor's Office
 QLencséné Szalontai Mária, Social Policy Department, Mayor's Office

Institution Heads

 QVarga Sándor, City Management